MEMORANDUM

JOINT BUDGET COMMITTEE

TO JBC Members
FROM JBC Staff
DATE March 20, 2018
SUBJECT Comeback Packet 5

Included in this packet are staff comeback memos for the following items:

Compensation (Alfredo Kemm):
- Pay Day Loan Program: Lag-pay Payroll System
- Pay Day Loan Program: Biweekly Rather Than Twice Monthly System

Higher Education (Amanda Bickel): Options for Additional Higher Education Adjustments

Regulatory Agencies (Vance Roper): Rural Broadband

MEMORANDUM

JOINT BUDGET COMMITTEE

TO	Joint Budget Committee
FROM	Alfredo Kemm, JBC Staff (303.866.4549)
DATE	March 20, 2018
SUBJECT	Statewide Compensation figure setting comeback – Lag-pay Payroll System (1 of 2) – Payday Loan Program

Staff had an additional conversation with the State Auditor on Tuesday morning to follow up on the OSPB comeback related to staff's appropriation recommendation for the Payday Loan Program.

The State Auditor clarified that addressing the "accounting side" of this program can be handled in multiple ways, and that generally there is no right answer from the "accounting perspective". In other words, the accounting perspective cannot clearly and simply provide the right way to approach this issue. Technically, the cash flow to employees from state funds for the purpose of a loan is not an "expenditure" per se from the accounting perspective. However, it is possible to recognize the cash flow out of State accounts as an "other financing use", rather than an expenditure.

Since the accounting perspective does not provide a clear answer, it is reasonable to consider first principles – whether this intended cash disbursement from state accounts should be legally authorized through an appropriation or through another method or mechanism.

The State Auditor agrees with staff's concerns regarding the creation in statute of a cash disbursement from the State's accounts for any purpose that does not include express authority for the outflow. Allowing the State Controller to simply record employee loans as balance sheet transactions also means authorizing the State Controller to tie up these state funds for the three years of the payback period. Allowing such authority, not otherwise provided in law, does not appear to be consistent with the legislative authority provided in the State Constitution. The Office of Legislative Legal Services' drafting manual includes the following section regarding appropriations (emphasis added):

> ***7.2.1 Constitutional Background - Meaning of "Appropriation"***
> ***<u>Section 33 of article V of the state constitution states: "No moneys in the state treasury shall be disbursed therefrom by the treasurer except upon appropriations made by law, or otherwise authorized by law...."</u>*** *Accordingly, under the constitutional separation of powers doctrine, the General Assembly has plenary or absolute power over appropriations subject to constitutional limitations. Colorado General Assembly v. Lamm, 704 P.2d 1371, 1380 (Colo. 1985); MacManus v. Love, 179 Colo. 218, 499 P.2d 609 (1972). <u>The plenary power of the legislature over appropriations is the power "to set apart from the public revenue a certain sum of money for a specified object, in such manner</u>* ***<u>that the executive officers of the government are authorized to use that money, and no more, for that object and for no other."</u>*** *<u>Colorado General Assembly v. Lamm, 700 P.2d 508 (Colo. 1985).</u>*
> *An "appropriation" is legal authority for an agency to expend a specified sum of money for a specified purpose, and* ***<u>a state agency may only expend money from the state treasury if the agency has a legislative appropriation for such purpose or if the expenditure is "otherwise authorized by law"</u>***. …

➔ STAFF RECOMMENDS THAT THE COMMITTEE PURSUE LEGISLATION ESTABLISHING AN ENTERPRISE CASH FUND FOR THE PURPOSE OF THE LOAN PROGRAM AND RECOMMENDS THE COMMITTEE AUTHORIZE A TRANSFER OF $27.4 MILLION GENERAL FUND TO THE EMPLOYEE LOAN ENTERPRISE CASH FUND, BASED ON STAFF'S ANALYSIS.

Staff's analysis is based on providing loans for half of all state employees regardless of fund source, for a half month of income (current statue for a twice-monthly payroll system), at approximately 75 percent of gross pay (current law for "the employee's net pay for a one-half month pay period.").

Staff further recommends that the legislation provide for the return to the General Fund of principal and interest collected at the end of each fiscal year and provide for repeal of the fund at the end of the three-year payback period.

The State Auditor concurs with staff's solution for the creation of a cash fund, funded from a transfer from the General Fund, which clarifies the fund source and expressly authorizes disbursement of state funds for this purpose. The State Auditor recommends the use of an enterprise cash fund to ensure the use of accrual accounting for the program; consistent with the State Controller's concerns regarding the accounting treatment of the loan program.

The Committee should also keep in mind that staff's recommendation is based on current law for the transition to a twice-monthly, lag-pay, payroll system. The Department of Personnel, the State Controller, and OSPB have requested Committee legislation to replace the twice-monthly system with a biweekly system. As outlined in staff's analysis, the transition to a biweekly system will entail a need for a General Fund transfer of $44.2 million to accommodate the loan program for a biweekly payroll system. Additionally, the State Controller has identified the need for $85 million if all employees were to take a loan. The change to a biweekly system will require an additional $16.8 million General Fund.

Staff's original, March 15th comeback memo regarding the Payday Loan Program follows.

House Bill 15-1392 authorized the creation and transition to a twice-monthly, lag-pay payroll system for all state employees from the current monthly, current-pay payroll system. On March 5th, staff began reviewing the bill draft requested by the Department of Personnel regarding technical changes to the future, twice-monthly, lag-pay payroll system. Staff has, as a result, become aware that the Department has announced in broadcast emails to executive branch employees its intended transition to a biweekly, lag-pay payroll system beginning in July 2018. These emails include the announcement of the availability of the loan program created in H.B. 15-1392.

Staff is addressing the requested bill draft as potential Committee legislation separately. However, the fiscal note for H.B. 15-1392 identified a fiscal impact related to the payday loan program and stated that the funding and spending authority would be addressed through the budget process. The Legislative Council Staff fiscal note for H.B. 15-1392 includes the following passage in the State Expenditures section.

> ***Employee loan program.*** *Approximately $65 million in state employee wages across state agencies could potentially be loaned out to state employees to mitigate the impact of the transition to a twice-monthly pay system. It is assumed that this loan program will be centrally managed by the Department of Personnel and Administration. Assuming about 40 to 50 percent of employees choose to take a loan, the Department of Personnel and Administration would have a one-time cost of approximately $30.0 million General Fund to fund employee loans in FY 2017-18. Employee loans will be repaid with interest over a period of up to three years. While employee wages are funded from a variety of sources, including General Fund, cash funds, and federal funds, it is assumed that General Fund is required to set aside funding for the loan program. Actual costs of the loan program will vary depending on employee participation. It is assumed that the Department of Personnel and Administration will conduct research to identify the likely number of participants in the loan program and request funding through the annual budget process.*

Staff is aware that the Department has not requested an appropriation for the payday loan program related to the implementation of the twice-monthly, lag-pay payroll system for FY 2018-19. **Staff recommends that the Committee include a line item in the Department of Personnel, Division of Accounts and Control, Financial Operations and Reporting (Office of the State Controller) to provide spending authority for the payday loan program.**

The following table outlines the estimated salary base for regular gross pay; this excludes amounts included in the larger base salary estimate for employer contributions for PERA and Medicare.

FY 2018-19 Estimated Salary Base (excluding employer contributions for PERA and Medicare)					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS
Estimated Salary Base	$1,754,667,548	$962,225,256	$425,461,473	$193,384,011	173,596,808

Staff has estimated the appropriation necessary based on the assumption included in the LCS fiscal note that 50 percent of employees may take the loan. Current law specifies: "The amount of the loan shall not be more than an amount equal to the employee's net pay for a one-half month pay period." Staff's analysis includes the assumption that employee net pay is equal to 75 percent of gross pay. The following table outlines the amount of General Fund estimated to be necessary to fund the payday loan program pursuant to current law, which specifies a twice-monthly payroll system.

Payday Loan Program - Current Law	
	TOTAL FUNDS
FY 18-19 Estimated Salary Base - all fund sources	$1,754,667,548
Monthly Salary	146,222,296
Twice-monthly Salary	73,111,148
Employees taking loans - 50%	36,555,574
Net Pay at 75%	$27,416,680

The Department's proposed biweekly pay system, as emailed to executive branch employees, specifies that the first payroll period would include July 1st through July 6th, paid on July 20th. The payday on July 20th would function as the only biweekly payday for state employees in the month of July. The following table outlines the amount of General Fund estimated to be necessary to fund the payday loan program under the Department's proposed biweekly pay system.

Payday Loan Program - Department Proposed Biweekly	
Days Paid in July 2018	6
Percentage of Pay in July	19.4%
Percentage of July 2018 pay required for loan	80.6%
Monthly Salary	$146,222,296
Monthly Salary to be replaced	117,921,206
Employees taking loans - 50%	58,960,603
Net Pay at 75%	$44,220,452
Difference from current law	$16,803,772
Percentage difference	61.3%

Regardless of the percentage of state employees who take loans, it appears that the Department's proposed biweekly pay system will increase the cost of the payday loan program by 61.3 percent. Additionally, the proposed biweekly pay system will equivalently increase the interest cost and principal amount included in monthly deductions from state employees' paychecks for three years for those employees who require the loan.

Staff recommends that the Committee appropriate a minimum of $27.4 million General Fund for the payday loan program for FY 2018-19, based on staff's current estimate. Alternatively, based on the impact identified in the LCS fiscal note for H.B. 15-1392, the Committee may wish to appropriate $30.0 million General Fund for that purpose for FY 2018-19.

MEMORANDUM

JOINT BUDGET COMMITTEE

TO	Joint Budget Committee
FROM	Alfredo Kemm, JBC Staff (303.866.4549)
DATE	March 20, 2018
SUBJECT	Statewide Compensation figure setting comeback – Lag-pay Payroll System (2 of 2) – Department of Personnel bill request for biweekly rather than twice-monthly system

The Department of Personnel has requested a JBC bill for a biweekly payroll system rather than the twice-monthly system in current law. Memo 1 includes a staff recommendation for a General Fund transfer for the employee loan program for the twice-monthly, lag-pay, payroll system in current law. That memo identifies a need for additional General Fund for that purpose under the Department's biweekly system. Given the additional fiscal impact, and rather than address the specific bill draft for the Committee's consideration, at this time staff would prefer to address technical issues with the requested policy changes generally.

First, this requested bill appears to have been characterized by OSPB as a minor, technical fix. Included in Monday's OSPB comeback is the following: "As part of the overall transition to HRWorks system, the Department requested that legislation be run to move the State's workforce to bi-weekly payroll. The request represents a minimal change from current statute, …"

However, staff believes the changes included in the bill are substantial policy changes as they regard state fiscal structures and practices. Staff further believes that the claimed advantages gained by a biweekly system over a twice-monthly system may not be worth the policy risk associated with the changes in understanding related to the State's fiscal structures and practices.

THE BIWEEKLY ADVANTAGE

The State Controller prefers a biweekly system due to its ability to handle pay periods as defined by workweeks. For hourly and overtime employees, this means that an accurate timesheet may be collected and processed prior to the preparation and issuance of a paycheck for a week or biweekly period, with the inclusion of all hours worked including overtime hours. The difference is that a twice-monthly or monthly payroll system breaks workweeks at various points from pay period to pay period.

This requires accounting staff to make additional calculations to ensure the proper payment of overtime when a week is broken by a twice-monthly or monthly pay period. The State Controller insists that it is nearly impossible to program a computer to calculate proper adjustments and that it is necessary to devote accounting staff resources for this purpose; his goal is accounting staff efficiency. However, when staff questioned him about capturing operating efficiencies through staff reductions, the State Controller is unable to provide efficiencies which lead to identifiable budget savings.

The cost of a biweekly payroll system as compared to a twice-monthly system may be negligible on the information technology platform side. However, because of the State's historical monthly pay period, state agency payroll, accounting, and controller staff will be required to increase their activities for and oversight of payroll activities from cycles of once a month – or 12 (to 13) per year – to 26 per year. Further, the biweekly system does not fit well with the fiscal year, while a twice-monthly system does. Multiple additional pay periods as well as end-of-year adjustments in the middle of biweekly pay periods will increase the demand on payroll, accounting, and controller staff at state agencies, regardless of the perceived efficiencies gained by better addressing hourly-overtime employees.

Additionally, for the February 2018 payroll, approximately 25.8 percent of employees included overtime adjustments. This suggests that about a quarter of the state's payroll is driving the move to the biweekly system. Staff's research of the biweekly versus twice-monthly payroll system advantage includes advice from private sector HR-payroll sources that employers may want to consider operating two payroll systems if they have salaried employees.

Generally, while staff accords respect to the State Controller and concedes expertise on matters of state accounting practices, staff is not convinced of the efficiency gains of a biweekly system.

THE PAY DATE SHIFT

Critical to the fiscal structures and practices alluded to in the introduction and the risk of policy changes related to the complexity of such structures and practices is discussion of the pay date shift.

The way that the State Controller has explained the 'date shift' to staff is as follows:
The 'pay date shift' is actually the 'date shift'. For the requested bill, the only statutory change necessary is to the General Fund surplus calculation in Section 24-75-201, C.R.S. This change would entail a reference to two biweekly payroll periods in June to be reflected, for budgeting purposes only, in July. The State Controller states that there is no accounting change as the State uses accrual accounting. The State Controller also states that the two biweekly payroll periods in June can still be paid to employees in June and do not need to be held until July.

Staff asked the State Controller why under current law we are required to pay employees on July 1st rather than June 30th for June pay. And whether to be consistent with his 'date shift' statutory change, we could simply eliminate statutory reference to paying employees on July 1st and eliminate the pay date shift simply by statutory change. He agreed that this could be done.

Staff is concerned that this is not technically possible, but cannot articulate an explanation for the Committee. Staff is left wondering why we have a pay date shift that delays state employee paychecks to July 1st, when by the State Controller's statements, it is unnecessary to do this.

The following payroll calendar for FY 2018-19 reflects the State Controller's biweekly concept as it relates to disbursements for payroll in the FY 2018-19 budget year.

Biweekly Payroll Calendar - Appropriation and Cash Flow Comparison				
Pay Period	Pay Date	GF Disbursement /Cash Outflow	Cumulative GF Disbursement /Cash Outflow	Remaining GF Appropriation
FY 2018-19				**$962,225,256***
0. June 2018	July 1, 2018	$80,185,438	$80,185,438	$882,039,818
1. July 1-July 6, 2018	July 20, 2018	15,817,401	96,002,839	866,222,416
2. July 7-July 20, 2018	August 3, 2018	37,008,664	133,011,503	829,213,753
3. July 21-August 3, 2018	August 17, 2018	37,008,664	170,020,167	792,205,089
4. August 4-August 17, 2018	August 31, 2018	37,008,664	207,028,830	755,196,425

Biweekly Payroll Calendar - Appropriation and Cash Flow Comparison				
Pay Period	Pay Date	GF Disbursement /Cash Outflow	Cumulative GF Disbursement /Cash Outflow	Remaining GF Appropriation
5. August 18-August 31, 2018	September 14, 2018	37,008,664	244,037,494	718,187,761
6. September 1-September 14, 2018	September 28, 2018	37,008,664	281,046,158	681,179,098
7. September 15-September 28, 2018	October 12, 2018	37,008,664	318,054,822	644,170,434
8. September 29-October 12, 2018	October 26, 2018	37,008,664	355,063,485	607,161,770
9. October 13-October 26, 2018	November 9, 2018	37,008,664	392,072,149	570,153,107
10. October 27-November 9, 2018	November 23, 2018	37,008,664	429,080,813	533,144,443
11. Novermber 10-November 23, 2018	December 7, 2018	37,008,664	466,089,476	496,135,779
12. November 24-December 7, 2018	December 21, 2018	37,008,664	503,098,140	459,127,116
13. December 8-December 21, 2018	January 4, 2019	37,008,664	540,106,804	422,118,452
14. December 22, 2018-January 4, 2019	January 18, 2019	37,008,664	577,115,467	385,109,788
15. January 5-January 18, 2019	February 1, 2019	37,008,664	614,124,131	348,101,125
16. January 19-February 1, 2019	February 15, 2019	37,008,664	651,132,795	311,092,461
17. February 2-February 15, 2019	March 1, 2019	37,008,664	688,141,458	274,083,797
18. February 16-March 1, 2019	March 15, 2019	37,008,664	725,150,122	237,075,134
19. March 2-March 15, 2019	March 29, 2019	37,008,664	762,158,786	200,066,470
20. March 16-March 29, 2019	April 12, 2019	37,008,664	799,167,449	163,057,806
21. March 30-April 12, 2019	April 26, 2019	37,008,664	836,176,113	126,049,143
22. April 13-April 26, 2019	May 10, 2019	37,008,664	873,184,777	89,040,479
23. April 27-May 10, 2019	May 24, 2019	37,008,664	910,193,440	52,031,815
24. May 11-May 24, 2019	June 7, 2019	37,008,664	947,202,104	15,023,152
25. May 25-June 7, 2019	June 21, 2019	$37,008,664	$984,210,768	($21,985,512)
FY 2019-20				
26 or 1. June 8-June 21, 2019	July 5, 2019	$37,008,664	$37,008,664	$925,216,592
2. June 22-July 5, 2019	July 19, 2019	$37,008,664	$74,017,327	$888,207,928

* Starting GF Appropriation equals GF portion of estimated salary base

As reflected in the table, the FY 2018-19 estimated salary base General Fund appropriation pays for the initial monthly payment for June 2018 plus 24 biweekly pay periods. The 25th pay period on June 21, 2019 is shown to be $22.0 million in deficit.

The State Controller's proposed statutory language would reflect the pay dates on June 7th and June 21st, 2019, as being reflected or recorded in July for budget purposes for the General Fund surplus calculation. And the State Controller believes this is all that is necessary to address the 'date shift' issue. However, staff is concerned that disbursements or cash outflows for payroll will exceed the appropriation for the period intended to be paid under the State Controller's system.

As previously stated, while staff accords respect to the State Controller and concedes expertise on matters of state accounting practices, staff is not convinced that there is no policy risk in engaging in this policy change. Staff cannot articulate an argument against the State Controller's plan regarding the pay date shift, but has to rely on the analysis presented in the table above reflecting the disjunction between the appropriation and the proposed disbursement in FY 2018-19.

MEMORANDUM

JOINT BUDGET COMMITTEE

TO	Joint Budget Committee
FROM	Amanda Bickel, JBC Staff (telephone 303-866-4960)
DATE	March 20, 2018
SUBJECT	Options for Additional Higher Education Adjustments

The staff figure setting outlined what staff considered the highest priorities for additional funding in the Long Bill. However, should the Committee choose to add or set-aside additional funds for higher education, staff suggests that the Committee consider prioritizing:

- Additional support for fragile stand-alone institutions - temporary for two years ($1.2-$1.5 million);
- A set-aside for additional occupational education funding ($10.0 million suggested), consistent with Master Plan Goals. This would provide additional funding for the community colleges and area technical colleges. A set-aside could also be used as a mechanism to provide support for related legislative priorities. For example, under this heading, and with additional funds, the Committee could conceivably include additional support for CMU and MSU initiatives to the extent these are tied to occupational credentials and/or applied learning.
- A set-aside for other higher education legislative priorities (dollar amount at Committee discretion).
  - **The JBC could sponsor one or more bills for its own priorities and/or set aside amounts for other legislative priorities.** (Other than in the Occupational Education arena, staff is not aware of legislation introduced by other members that tap into such a set-aside.)
  - As the Committee is aware, the University of Colorado has organized a number of institutions to propose additional funding based on a new funding allocation formula negotiated among the institutions. Staff does not support using a brand new, negotiated formula. **However, if the Committee wishes to use a formula, staff recommends using the number of students eligible for the Pell grant, as staff believes this is most aligned with the Master Plan.**
- Finally, staff would like the 3.0% tuition cap established in the Long Bill to be maintained, despite the impact of S.B. 18-200 (PERA). This could require additional General Fund, depending upon the final form of the bill and scale of the impact.

ADDITIONAL SUPPORT FOR FRAGILE STAND-ALONE INSTITUTIONS

Consider appropriating in the Long Bill or setting aside $1.2 million to $1.5 million in additional funds. In light of the higher revenue forecast, staff believes the Committee should consider additional support for Fort Lewis and Adams State and Western State. Staff suggests such assistance be authorized on a *temporary* basis for the next two years (at which point the model will no longer be constrained by guard rails). Staff hopes that the additional funding will provide the institutions with an opportunity to stabilize financially and for the State to assess the most appropriate level of support going forward.

Consistent with the approach used in staff's original recommendations, this level of adjustment could be made *within* the funding model and thus **included in the Long Bill.** However, due to the model guard rails, additional funding available for Western is more limited and, as for all adjustments within the funding model, there are collateral impacts on other institutions. Funding could also be included outside of the Long Bill if the Committee wishes to run separate legislation and avoid model constraints.

The table below includes adjustments that staff believes can be made in the Long Bill within the funding model. These changes include the changes already approved by the JBC to roll-and-mission funding $500,000 for all small 4-year institutions and $100,000 for small community colleges. To avoid a cut in funding for MSU, staff has also added $40,000 to its role and mission funding in its category of "large comprehensive 4-year institutions". **The Committee previously approved an increase of $2,650,011 above the executive request. This version adds an additional $1,220,000.**

Total with Specialty Education

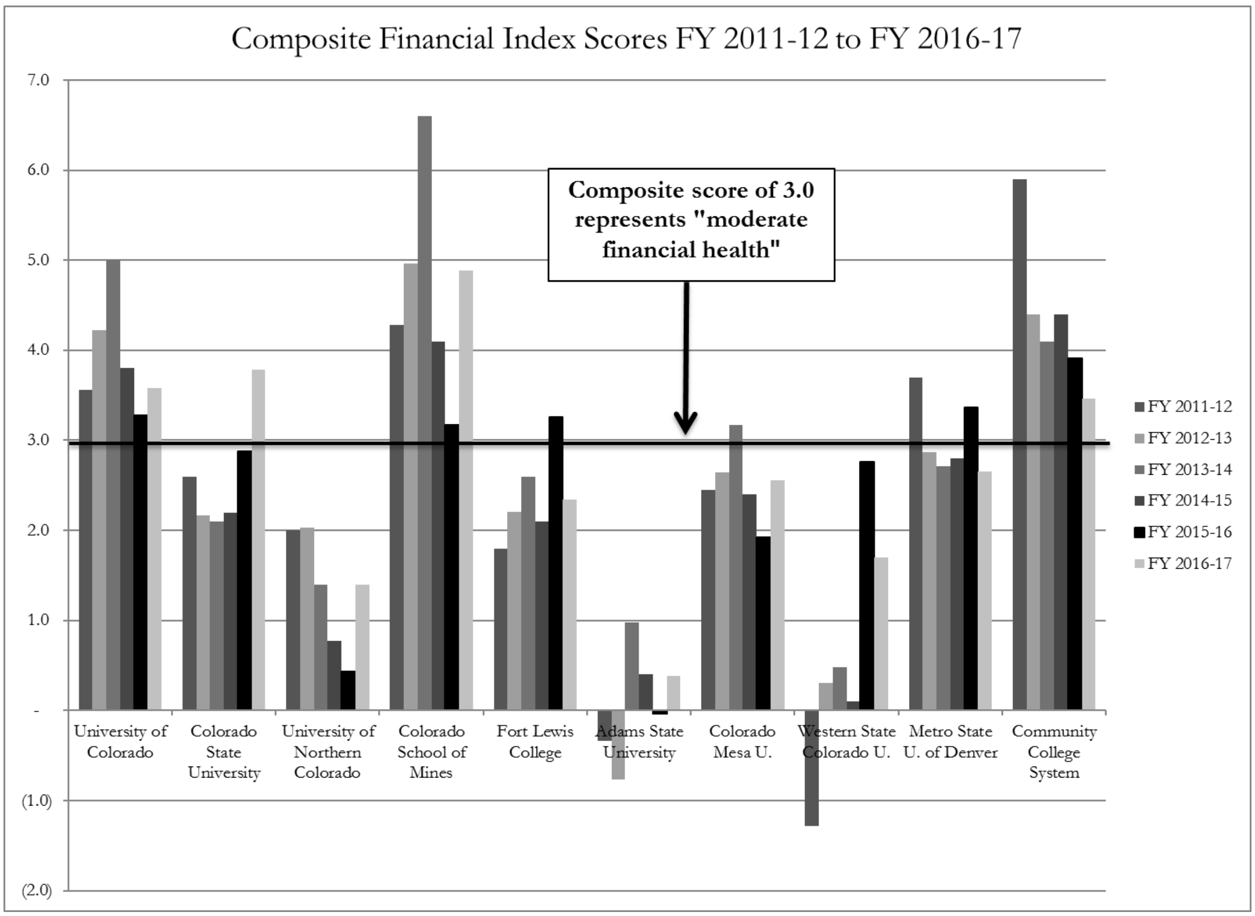
Governing Board	FY 17-18 Approps (w/SEP	FY 18-19 Allocation (w/SEP)	Percent Change from Prior Year	New Option: Change in $	Exec Requesed Increase	New Option Above/(below) Request
Adams	14,259,963	$15,798,730	10.79%	$1,538,767	$515,205	$1,023,562
Mesa	25,951,161	$28,424,330	9.53%	$2,473,169	$2,476,586	-$3,417
Mines	21,484,706	$22,398,058	4.25%	$913,352	$889,569	$23,783
CSU	139,285,526	$151,592,553	8.84%	$12,307,027	$11,741,288	$565,739
CCCS	153,547,255	$167,952,487	9.38%	$14,405,232	$13,877,681	$527,551
Ft. Lewis	11,784,939	$13,024,098	10.51%	$1,239,159	$425,286	$813,873
Metro	51,626,603	$56,491,922	9.42%	$4,865,319	$4,872,836	-$7,517
CU	194,218,227	$213,151,646	9.75%	$18,933,419	$18,875,244	$58,175
UNC	39,522,408	$41,737,432	5.6%	$2,215,024	$2,211,148	$3,876
Western	11,821,897	$13,488,588	14.10%	$1,666,691	$958,874	$707,817
CMC	7,319,484	$7,987,525	9.13%	$668,041	$624,288	$43,753
AIMS	8,654,810	$9,444,725	9.13%	$789,915	$738,179	$51,736
ATC	10,218,039	$11,150,628	9.13%	$932,589	$871,509	$61,080
Total	689,695,018	752,642,721	9.126890%	62,947,704	59,077,693	3,870,011

As previously noted:

- **Adams State University.** Adams' composite financial index (CFI) has hovered close to zero in recent years. It is facing substantial declines in enrollment, and has been on probation with its accreditor, the Higher Learning Commission, and, as a result, students have been discouraged from attending. Its trend with respect to total FTE does not appear dire, but this conceals a steady decline in its "bread and butter" undergraduate enrollment since FY 2011-12 (from 1,967 in FY 2012 to 1,694 in FY 2016-17). Adams reports a further enrollment drop of 7 percent in FY 2017-18. Last year's Treasurer's report highlighted concerns, and the school was ineligible for the intercept program for one year due to its coverage ratio. It is again eligible this year. However, its bond rating was recently assessed as A3 with a negative outlook. If it slips further, the school will be in the B category and no longer eligible for intercept. Adams reports that it is planning $1.7 million in budget reductions. While it appears that the Higher Learning Commission will remove Adams from probationary status, its leadership is in flux.

- **Fort Lewis College.** From a financial position, Fort Lewis is assessed as stronger than the other two institutions, with a credit rating of A2, due to the Native American Tuition Waiver and the associated reliable General Fund support. However, its enrollment has been shrinking from over 4,000 students in the early 2000s to just 3,167 in FY 2016-17, and for the last two years even its Native American student population and related waiver revenue has declined. It reports planned cuts of $4.7 million for the next year, and most of its leadership is in the process of changing.

- **Western State Colorado University's** financial positions appeared stronger in 2015-16, because of significant additional capital investments from the State. However, its CFI position has declined in FY 2016-17. Western State has seen significant enrollment growth, due to improved marketing, and it has seen a sharp uptick in enrollment from a low of 1,792 in 2012-13 to 2,196 in FY 2016-17. However, its credit rating is still Baa1, and it is highly leveraged. Due to its low credit rating, it is not eligible to expand its debt under the revenue bond intercept program. Further, after a substantial enrollment increase for FY 2016-17, enrollment again fell below expectations in FY 2017-18.



GOVERNING BOARD	TREASURER: QUALIFIED TO ISSUE ADDITIONAL DEBT UNDER INTERCEPT PROGRAM BASED ON CREDIT RATING, COVERAGE RATIO, AND DEBT PAYMENT TO STATE APPROPRIATION RATIO?	BOND RATING/RATING OUTLOOK MOODY)*	NOTES
Fort Lewis College	YES	A2/stable (Feb 2016)	Debt service coverage is sufficient and Native American Tuition waiver provides ongoing support, but Moody's notes declining enrollment and limited pricing power in a competitive environment.
Adams State University	YES	A3/negative (May 2017)	Qualifies for intercept in 2017 after failing test in 2016 due to debt coverage ratio. However, credit rating downgraded by Moody's 1/22/16 and outlook assessed as negative in May 2017. (Any further downgrade would disqualify Adams from the intercept program.) Moody's indicates the negative outlook reflects uncertainty regarding the university's ability to successfully balance operating performance due to limited state operating support and variable enrollment.
Western State Colorado U.	**NO**	Baa1/stable (Aug 2016)	Fails credit rating test and coverage ratio test. Rating is stable. Coverage is challenging as the University is highly leveraged with capital expenses equivalent to 23 percent of total expenses.

OCCUPATIONAL EDUCATION

Consider a set-aside of $10.0 million, which could include funding to address front-end and/or ongoing program maintenance costs. A higher figure could be considered to accommodate other members' bills, if desired based on conversations with leadership. The Governor's request included $5.0 million for a front-end grant program that the JBC has not chosen to approve thus far.

As requested by the Committee, staff met with some of the parties interested in Career and Technical Education last week. Based on this meeting, as well as other pending legislation, it is clear that:

- The Workforce Council in the Colorado Department of Labor and Employment is positioned to administer a grant program targeted to occupational education expansion that takes into account the joint interests of employers and students--and thus helps ensure that there are jobs at the end of a technical certification.
- Institutions see the need for *both* additional front-end support <u>and</u> additional ongoing funding for such expansion.
- If sufficient funds are available, staff supports (1) a $5.0 million grant program in the Department of Labor and Employment; and (2) $5.0 million per year for a 3-year pilot program that would award funding based on the number of high-quality CTE certificates awarded. The JBC could sponsor these bills, work with the sponsors of S.B. 18-133 (Higher Ed Certificate Performance funding by Gardner/Duran) and H.B. 18-1034 (Career and Technical Ed Capital Grant Program by Covarrubias &McKean/Priola) to modify their bills.

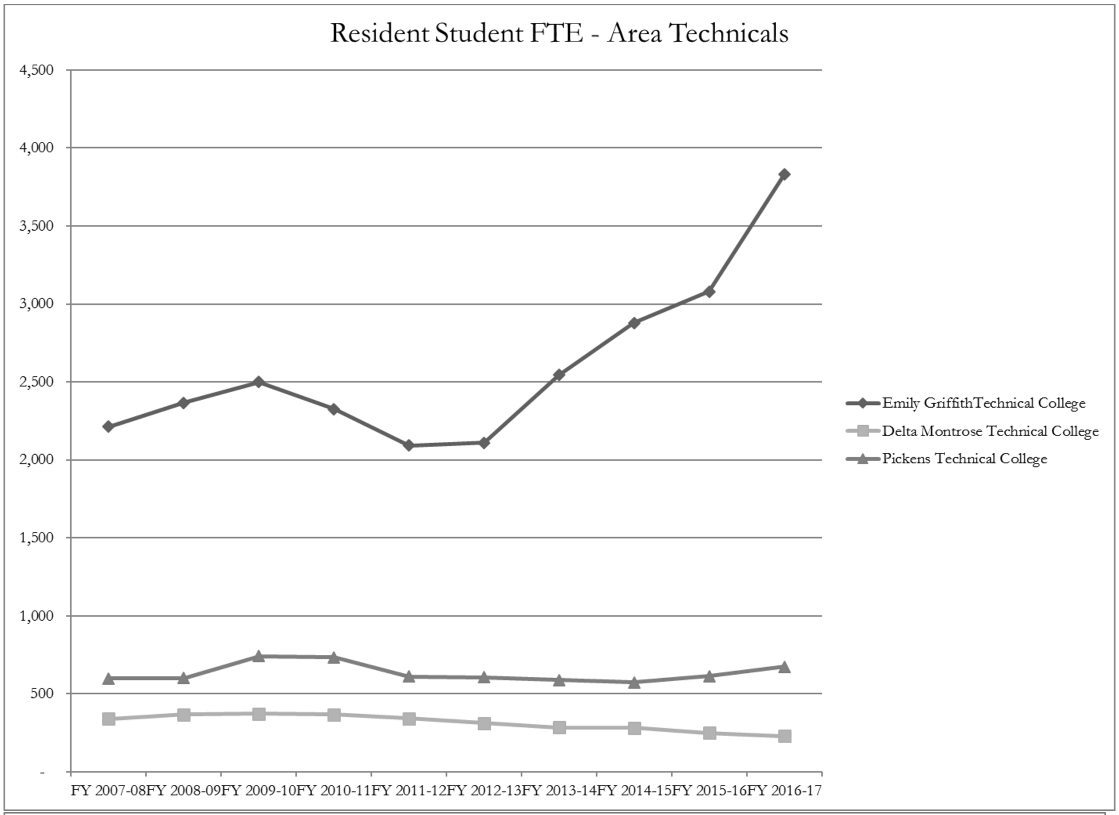
- Based on discussions with leadership, the Committee could also set aside a larger amount to support a range of legislators' initiatives. A number of legislators are very interested in enhanced support and expansion of career and technical education. There may be a number of bills that could be classified as related to occupational education. For example, staff understands there is a bill to continue the WORK program (which helps to recruit students for short-term certificate training), which was last funded at $3.4 million per year).
- Legislation targeted to occupational education could also be used, conceivably, to provide additional support to (a) Colorado Mesa University to help reduce the cost of its CTE programs; and (b) Metro State University to support its proposed new center focused on applied learning and apprenticeships *if* such initiatives are not addressed through a broader bill related to higher education funding.
- In general, institutions' support for any particular occupational education funding scenario (including interest in awarding funds based on occupational education credentials, as well as proposals from CMU and MSU) may tempered by broader negotiations among the institutions about what constitutes "fair" funding increases for higher education.

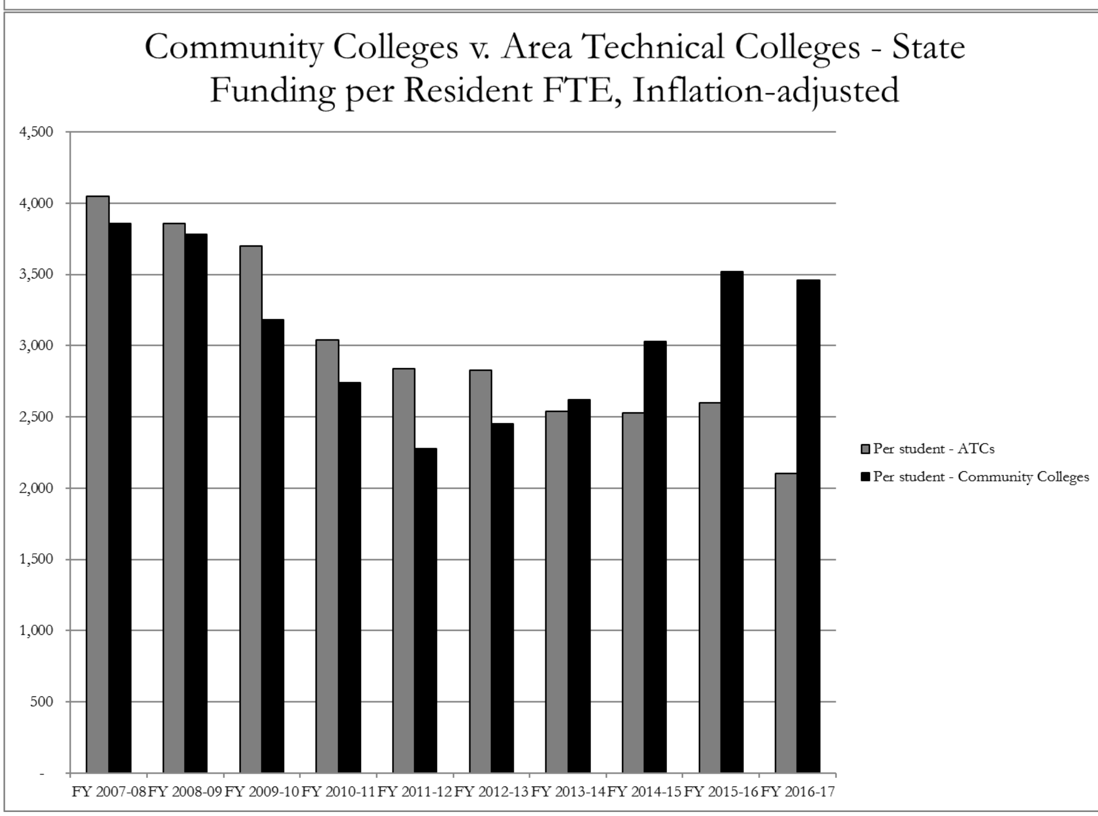
An excerpt from Staff's figure setting write-up about Career and Technical Education is attached.

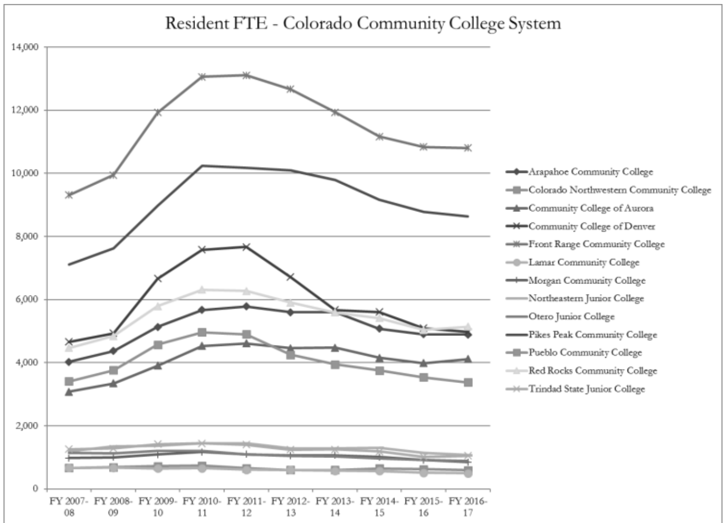
If the Committee decides that its proposed set-aside will include a grant program similar to that requested by the Department but with changes proposed by staff (see attachment), staff requests that the Committee request a bill draft. Staff believes the text of a bill draft will be useful in working out the details of a program and in discussions with other members.

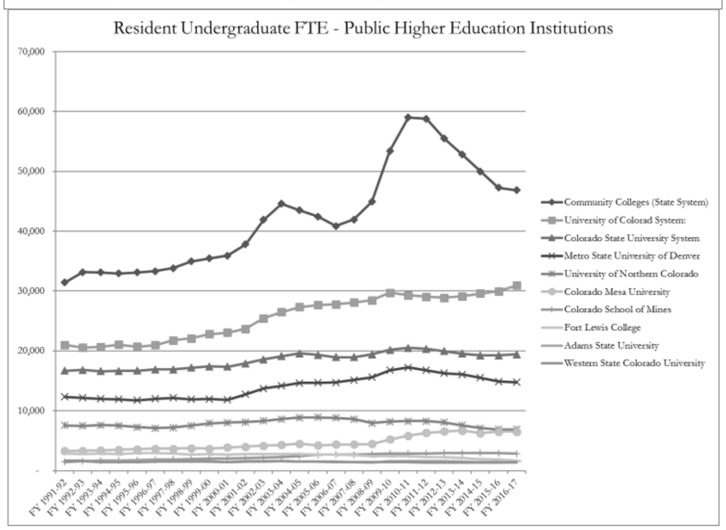
ADDITIONAL SUPPORT FOR AREA TECHNICAL COLLEGES

If not addressed through Occupational Initiatives above, *consider appropriating in the Long Bill or setting aside up to $1.1 million in additional funds for Area Technical Colleges*. During figure setting, staff noted that some additional support for the Area Technical Colleges seemed appropriate in light of enrollment trends. As shown below, Emily Griffith FTE have increased very rapidly in recent years, although this is not the case for the other two, smaller technical colleges. For comparison, staff has also included trends for undergraduate resident enrollment at the community colleges and state institutions overall. In total, resident FTE at the area technical colleges has grown by over 50 percent since FY 2011-12, driven entirely by Emily Griffith. For comparison, resident FTE in the state community college system has declined by 20 percent during the same period, and resident undergraduate FTE at public institutions statewide has declined by 10 percent. Because of these different enrollment trends, the State is providing far less support per area technical college student than in prior years.


Resident Student FTE - Area Technicals
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
-
FY 2007-08
FY 2008-09
FY 2009-10
FY 2010-11
FY 2011-12
FY 2012-13
FY 2013-14
FY 2014-15
FY 2015-16
FY 2016-17
Emily GriffithTechnical College
Delta Montrose Technical College
Pickens Technical College


Community Colleges v. Area Technical Colleges - State Funding per Resident FTE, Inflation-adjusted
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
-
FY 2007-08
FY 2008-09
FY 2009-10
FY 2010-11
FY 2011-12
FY 2012-13
FY 2013-14
FY 2014-15
FY 2015-16
FY 2016-17
Per student - ATCs
Per student - Community Colleges





It is difficult to determine an "appropriate" amount of funding for the ATCs.

- Their funding per statute increases and decreases at the same rate as the overall state higher education funding and is not related to any of the metrics within the H.B. 14-1319 funding model.
- It is difficult to compare the costs of programs at the ATCs as opposed to the community colleges. While the community colleges report average tuition and mandatory fees of $4,798 in FY 2017-18, this does not include the additional charges associated with particular programs of study. Nursing students at Front Range Community College pay $217 to $328 per credit hour ($6,510 to $9,840 per year full time) *plus* additional fees, while the cost of an LPN certificate at Emily Griffith (39 credit hours at $10,213 or $7,860 per year full time) works out to $262 per credit hour *including* fees.
- The State has no control over tuition levels at the ATCs and has little visibility into internal decisions about how ATCs operate, since ATCs are housed within school districts and operate under school district boards.

Nonetheless, the ATCs serve a postsecondary, as well as a secondary, function. All enrollment figures reported to the State are for postsecondary, rather than secondary enrollment. Postsecondary enrollment is the vast majority of the student population at Emily Griffith and a large share of the student population at the other two institutions. While some students may be concurrently enrolled in high school and college, this is no different from students concurrently enrolled at the community colleges.

In light of this, staff believes the Committee could consider bringing the per-student level of funding at the ATCs up to the level in effect in FY 2015-16, before total the latest large enrollment increase, which would result in a very substantial additional increase of 10.6 percent ($1.1 million).
Note, however:

- While staff believes this level of increase is defensible, staff is concerned that the Executive Branch did not propose an additional ATC increase. Further, while staff has no specific basis for doubting the FTE figures reported by DHE, the rapid enrollment increase at Emily Griffith raises some concerns for staff about the quality of the data.
- *If the Committee approves a set-aside for occupational education that includes an ongoing component related to funding for CTE certificate production, staff would recommend providing additional funding for the Area Technical Colleges through that mechanism instead of through the Long Bill. In general, staff would prefer that additional funding be tied to specific outcomes rather than a Long Bill base adjustment, given the General Assembly's lack of influence over CTE tuition or operations.*

FY 2018-19 ATC funding - JBC Action	$11,086,572
ATC res. FTE FY 2016-17	4,735
ATC per student based on FY 2016-17 FTE	2,341.18
FY 2017-18 ATC Funding	$10,218,039
ATC res FTE FY 2015-16	3,945
ATC per student based on FY 2015-16 FTE	2,590.12
Difference FY 2019 v. FY 2018	$249
Additional funding (4,735 FTE)	**$1,178,882**

OTHER NEW LEGISLATION/ALTERNATIVE ALLOCATIONS

A number of higher education institutions have promoted a new proposed allocation formula for distribution of additional funds among the higher education institutions. Institutions have correctly noted that H.B. 14-1319 anticipates that new legislation that might provide appropriations above the amounts included in the Long Bill, so this is a mechanism that could be used, should the Committee wish to provide additional appropriations.

Staff assumes that this coordinated proposal responds, in part, to concerns from members of the JBC and the General Assembly about disorganized "one-off" proposals from institutions that have not been vetted through the Department of Higher Education or the Governor's Office.

- The institutions' proposal is based on:
  Allocating funds among CU, CSU, Mines and UNC based on STEM completions

Allocating funds between MSU-Denver and CMU based on Pell COF credit hours
Allocating funds between Adams, Western, and Fort Lewis equally
Allocating funds among the community colleges, ATCS, CMC and Aims based on certificate completions of at least 24 credit hours in length

- Staff suggests that if the Committee wishes to add additional funding for higher education, it should consider tying such funding to new statutory requirements, programs, or outcomes, such as increasing occupational education credentials.

- Alternatively, if the Committee wishes to consider a formula allocation, staff recommends distributing any additional funding based on students who qualify for the Pell grant, rather than based on a newly invented formula that proposes to allocate funds based on entirely different criteria for different categories of institutions. About one-third of students enrolled in the public institutions are eligible for Pell.

- If funds are distributed based on the Pell formula, the use of these funds could be focused on: efforts to recruit students how have not traditionally participated in higher education; financial aid for low- to middle-income students; and efforts to help such students retain and complete. The General Assembly could then rely on the Colorado Commission on Higher Education to vet institutional proposals to ensure that they are reasonably likely to achieve the stated goals.

- Staff recognizes that distribution of funds through the Pell grant will *not* help to address the financial challenges facing small institutions and would therefore suggest that, if the Committee chooses to pursue this option, it add funds in the Long Bill for these institutions.

Rationale for Using Pell and Tying to Enrollment/Completion - IF Wish to Use Allocation Formula
The most critical problems facing Colorado's higher education relate to (1) desire for greater *participation* in higher education among groups that have not traditionally participated at high levels, as this is the only way the home-grown population of participants will grow. This <u>includes</u> greater participation in activities that lead to short-term technical credentials; (2) desire for more consistent *completion* among students who participate in higher education.

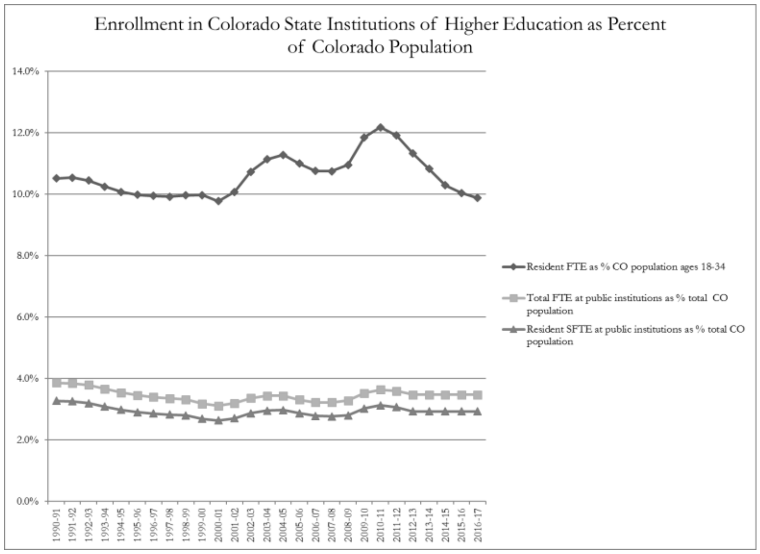
Higher Education Enrollment

Colorado High School Graduates' College Enrollment

Table 2. In-State and Out-of-State Enrollment Summary

High School Graduation Year	% HS Graduates Enrolling at In-State College	% HS Graduates Enrolling at Out-of-State College	% HS Graduates Not Enrolled
2015	**43.1%**	**13.4%**	**43.5%**
2014	42.5%	13.3%	44.2%
2013	42.9%	12.4%	44.7%
2012	44.4%	12.5%	43.0%
2011	45.2%	12.2%	42.6%
2010	45.9%	12.0%	42.1%
2009	47.4%	11.4%	41.2%

Source: *2017 Legislative Report on the Postsecondary Progress and Success of High School Graduates*, Colorado Department of Higher Education, March 3, 2017.
https://highered.colorado.gov/Publications/Reports/Legislative/PostSecondary/2017_Postsecondary_Progress_rel20170303.pdf



Higher Education Completion

About one-third of students transfer in the course of their educational career. According to the National Student Clearinghouse Research Center taking into account the large amount of transfers by students among institutions both in and out of state:[1]

- The completion rate for students who started at a **four-year public institution** in Colorado in 2010 was **61.6 percent** after six years, with 24.7 percent not completing at any institution, and the remainder still enrolled.

- The completion rate for students who started at a public **two-year institution** in Colorado was **38.2 percent** after six years. At that point, 13.7 percent had completed a four-year degree and 24.5 percent had completed a two-year degree. Nearly half of students (48.5 percent) had not completed after six years.

Lower-Income Students

Both enrollment and completion figures are worse for students who are low-income (as well as first in their families to attend college. As noted by the federal Department of Education, while half of Americans from high-income families hold a bachelor's degree by age 25, just 1 in 10 people from low-income families attain that level of education.[2] Researchers have found that even after accounting for other characteristics, completion rates among lower income students are consistently lower than for their peers.[3]

[1] Shapiro, D et. Al., Completing College: A State Level View of Student Attainment Rates, (Signature Report No. 12 a), National Student Clearinghouse Research Center, March, 2017
https://nscresearchcenter.org/signaturereport12-statesupplement/
[2] https://www.ed.gov/college
[3] College Board Trends in Higher Education https://trends.collegeboard.org/education-pays/figures-tables/completion-rates-family-income-and-parental-education-level

Comparison - Allocation of Additional Funds Based on Various Formulas

The table below reflects the hypothetical allocation of $10,000,000 under three possible options: (1) the proposal put forward by a group of institutions; (2) the current higher education funding model; and (3) Number of Pell students. The institutional proposal is based on $18.0 million, but staff does not know the origin of that figure. As previously noted, staff anticipates that funding for small rural institutions would primarily be provided outside any Pell-based formula.

	INSTITUTION PROPOSAL	REQUEST MODEL	PELL ALLOCATION
Adams State University	$740,741	$198,679	$148,413
Colorado Mesa University	693,812	337,671	535,737
Colorado School of Mines	403,950	360,074	102,129
CSU System	746,002	2,124,961	1,102,384
Community College System	2,340,432	1,703,307	3,813,651
Fort Lewis College	740,741	162,875	96,313
Metropolitan State University of Denver	1,528,411	746,399	1,307,119
CU System	1,465,895	3,279,669	1,818,240
University of Northern Colorado	161,932	535,904	425,084
Western State Colorado University	740,741	161,094	79,106
CO Mountain College	129,946	108,809	169,683
Aims Community College	53,096	128,660	271,812
Area Technical Colleges	254,303	151,898	130,329
TOTAL	**10,000,002**	**10,000,000**	**10,000,000**

EXCERPT FROM FIGURE SETTING PACKET

R5 OCCUPATIONAL CREDENTIAL CAPACITY GRANT PROGRAM AND STAFF-INITIATED CREDENTIAL INCENTIVE PROGRAM (BILL #18 AND APPROPRIATION)

REQUEST: The Department of Higher Education request R5, Occupational Credential Capacity Grant Program, proposes a new $5,000,000 General Fund grant program to support capacity building for postsecondary occupational education programs.

The State's *Talent Pipeline* report finds that 16 percent of all labor market vacancies in Colorado will require a certificate by 2025. This reflects a significant increase in demand for such certificates since 2015.

Existing financial resources and incentive structures are not sufficient for institutions to expand their CTE programs in many high cost/high demand fields. The specific obstacles vary depending upon the region and the program but include:

- space availability
- accreditation requirements
- additional resources needed for students; and
- qualified faculty.

The Department's proposed solution is a new grant program that would help institutions address the specific obstacles they face with respect to expanding existing programs and building new ones. Specific program components:

- The program would use a "request for proposals" (RFP) process requiring institutions to submit plans to address the obstacles they face in expanding or launching specific CTE programs.
- New and expanded programs must address regional labor market demands and be based on an analysis of job openings in the areas.
- Grants would prioritize programs serving underserved populations and locations. Grants could help expand concurrent enrollment opportunities for students dually enrolled in high school and college in low-income, high minority, and rural districts. Grants could also be used to expand CTE programs offered by institutions of higher education in correctional institutions, among other purposes.
- The following institutions would be eligible: community colleges, Colorado Mesa University, area technical colleges, and local district colleges.
- The program would be housed in the Department of Higher Education but, as part of the RFP review process, the Department will coordinate with the Workforce Development Council, which includes the Executive Directors of the Departments of Labor and Employment, Education, the Office of Economic Development and International Trade, and the Department of Higher Education, among others. The Department of Corrections would be included for programs targeting correctional populations.
- As part of the RFP process, the Department will require each institution to explain how their project will increase certificates, the number of additional certificates to be generated, and the timelines.

- Success will be measured by the number of additional certificates added each year in high demand fields. The State is currently seeking to increase certificate production by 643 certificates annually over the next eight years.
- The Department proposes to work on developing the potential RFP during the legislative session, so that the RFP can be released before the end of July 2018 if necessary legislation is approved.
- Creating this program will require new legislation.

In response to staff and Committee hearing questions, the Department indicated:
- Examples of programs that could be funded:
  - Applicants may show that there is a short-term need for certificate production and a one-time influx of emergency financial aid will produce certificates to meet existing industry needs;
  - Applicants may show that a one-time influx of training resources may help institutions to alleviate waitlists by providing a revenue source to onboard faculty;
  - Applicants may show that by providing revenue to overcome barriers to entry, like salaries, this program can assist institutions in developing sustainable new capacity. As the capacity grows, the institution revenue derived from other sources will also grow, thus allowing the additional capacity to remain intact.
- The Department does **not** anticipate that these funds would be used for capital construction.
- While the structure of the grant currently assumes a single year of funding, proposals could span across a couple of years.
- The Department anticipates that this would be a *competitive* grant process.
- Grants would be awarded based on criteria such as demonstrated need, feasibility, anticipated return on investment, and alignment with state or regional workforce needs.
- The Department anticipates accepting requests between $100,000 and $1,000,000, and the ability to address special populations. These will be one-time grants to recipients with the possibility to expand into out-years if additional capacity needs can be addressed.

RECOMMENDATION: Staff supports the goal of the proposed grant program, as well as a new formula allocation for CTE programs described below. Nonetheless, staff is very concerned about the apparent lack of detailed planning or stakeholder involvement up to this point. **Staff has outlined preliminary recommendations for a potential bill. However, staff suggests that the Committee wait to proceed with any action until:**

The Department provides a detailed plan for the grant portion of the initiative, including details that demonstrates active stakeholder involvement in the planning process (e.g., through a "comeback"); and

The Committee consults with other legislators that have expressed interest in CTE.

Staff believes the JBC, in consultation with other legislators, could consider a CTE "package" that supports:

Support for **front-end development of CTE** programs through a grant program ($5.0 million, consistent with request);

Additional **performance-based operating support** for CTE programs ($5.0 million beyond request, if available);

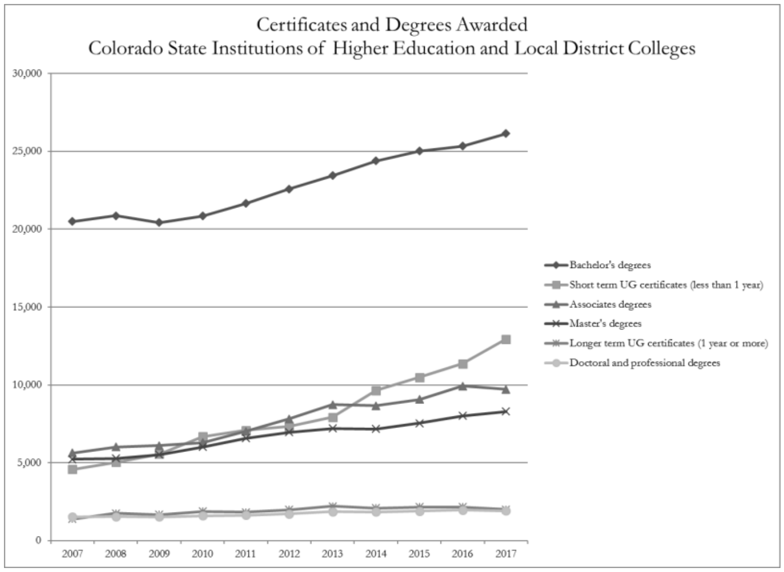
However, staff is unable to support a grant program until the Department is able to clearly articulate the proposal and address basic questions such as who will review these proposals. If it can do this, staff will support this initiative in the comeback process. Further, there are currently two bills in play that touch on these issues but differ from the staff recommendation. The Committee may wish to consult with the sponsors of those bills as it considers a path forward.

Related Bills:
Senate Bill 18-133 (Concerning performance funding in higher education fee-for-service contracts for awarding certificates by Sen. Gardner and Speaker Duran) would change the statutory higher education funding model so that each certificate is awarded at 50 percent of the amount for each bachelor's degree awarded. The bill is currently in the Senate Education Committee.

House Bill 18-1034 (Concerning Creation of a Grant Program for Capital Costs Relating to Career and Technical Education by Reps. Covarrubias/McKean and Sen. Priola) proposes a $10.0 million grant program for capital costs relating to career and technical education. This program would benefit postsecondary CTE providers *and* K-12 CTE providers by funding equipment and capital construction for CTE. It would be administered by the Colorado Workforce Development Council, rather than the Department of Higher Education. The bill passed out of the House Education Committee and is currently in the House Appropriations committee.

ANALYSIS - WHY SUPPORT CAREER AND TECHNICAL EDUCATION?
Background

- About one-third of all community college student FTE are enrolled in CTE programs. State support for *postsecondary* CTE includes $10.2 million for the area technical colleges and over $55 million for community colleges and local district colleges based on the share of community college students enrolled in CTE.
- As of FY 2014-15, 34,829 students were enrolled in postsecondary CTE programs, including 10,000 students who are concurrently enrolled in high school and college CTE programs.
- The majority of state and local CTE dollars support CTE in the K-12 system as part of school finance formula. However, much of the coursework the approximately 100,000 K-12 CTE students take reflects sampling/experimenting with CTE. The State only provides CTE *credentials* through the postsecondary system.
- In FY 2016-17, state postsecondary institutions awarded almost 20,000 CTE credentials. In recent years, institutions have significantly increased the rate at which CTE certificates are awarded.



State Workforce Needs

The chart below shows the job opening projections that have served as the basis for the State's educational attainment and credential production goals. As can be seen, while about 73 percent of projected jobs are anticipated to require education beyond high school a large portion of those jobs do not require a baccalaureate degree but rather "some college" such as a technical credential or associates degree.

Colorado Projected Job Openings 2020

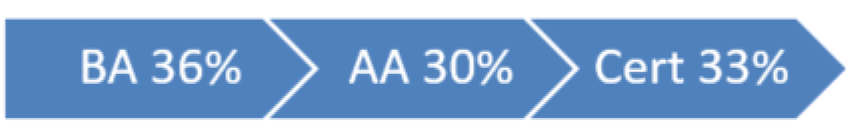
OCCUPATION	Less than high school	High school diploma	Some college/ no degree	Associate's degree	Bachelor's degree	Master's degree or better
	JOB OPENINGS BY OCCUPATION AND EDUCATION LEVEL (IN THOUSANDS)					
Managerial and Professional Office	2	14	31	11	73	35
STEM	0	3	9	4	27	14
Social Sciences	0	0	0	0	2	4
Community Services and Arts	0	3	8	3	28	11
Education	0	1	4	2	20	25
Healthcare Professional and Technical	0	1	5	9	15	14
Healthcare Support	1	5	7	5	2	1
Food and Personal Services	25	50	43	13	29	4
Sales and Office Support	10	64	77	23	71	14
Blue Collar	28	60	42	14	14	2
TOTAL	**67**	**201**	**226**	**84**	**282**	**124**
Share of Job Openings	6.8%	20.4%	23.0%	8.5%	28.7%	12.6%
	27.2%		31.5%		41.3%	
	High school or less		Some college/associates		Bachelors or higher	

Source: Carnevale, Smith, and Strohl, Recovery: Projections of Jobs and Education Requirements through 2020 (Colorado-Recovery section), Georgetown Public Policy Institute, Center on Education and the Workforce, June 2013.

Colorado's current public postsecondary educational system and postsecondary educational expenditures are heavily weighted toward four-year institutions. The Department provided the following comparison of the actual distribution of degrees awarded and the distribution of need indicated by the Georgetown workforce analyses. While the future is difficult to predict, this suggests that the State should continue to enhance its focus on growing mid-level credentials, such as technical certificates and associates degrees.

2014 Actual Degree Distribution:

Georgetown Degree Distribution based upon Projected Job Needs



Some shorter-term certificates generate significantly more money for a student than some 4-year liberal arts degrees. For example, based on data collected in the Launch My Career Colorado website: https://launchmycareercolorado.org/

- A student earning a bachelor's degree in English at CU Boulder can expect first year wages of just $23,571and top future earnings, after about 15 years, of about $58,081 per year for a degree costing $92,633.

- A student earning certification in welding at Front Range Community College can expect first year wages of $35,148 and mid-career wages of $78,702 for a certificate costing $6,842.

The State's Talent Pipeline Report concludes that 7 percent of top jobs--jobs paying a living wage--require a postsecondary certificate. Among jobs that pay a living wage for an individual (as opposed to a family), jobs requiring a certificate make up 11 percent compared to 6 percent that require a bachelor's degree. These include the following.

OCCUPATION	2015-2025 GROWTH RATE (%)	AVG. ANNUAL OPENINGS
Nursing Assistant	34.3	1,118
Medical Assistant	37.2	548
Dental Assistant	28.5	334
HVAC Mechanics and Installers	44.4	329
LPNs and licensed vocational nurses	28.6	321
EMTs and paramedics	39.0	236
Barbers	34.0	132
Phlebotomists	44.5	122
Estheticians	32.4	65
Audio and visual equipment techs	27.6	55
Medical transcriptionists	25.0	49

POTENTIAL PROGRAM COMPONENTS

As noted above, a CTE "package" could include both funding for front-end program expansion and support for production of CTE certificates on an ongoing basis.

Grant Program*:* A grant program, requested by the Department, could help to address some of the challenges to expanding CTE programs. Area technical colleges and community colleges indicate that their **ability to expand high quality CTE programs is often limited by front-end costs**. Institutions have indicated that a grant program could be helpful in funding equipment, start-up costs, and capital costs.

To be successful, however, such a program must address:
Department capacity to review proposals;
How programs will be scored/fairness;
Demonstrating industry support;
Capital funding issues; and
Timing.

Staff has included some related suggestions below. However, staff believes that further input and feedback from stakeholders is needed to construct a thoughtful program. Staff's preliminary suggestions, if the Committee is interested in this initiative, include:

- Require grantees to demonstrate that the grant will: (1) address a state or regional need for a particular type of certification in a high demand job (based on the Talent Pipeline report and local business demand); (2) cover needed start-up costs for the program, including capital and leased space. The Department's current proposal is extremely broad (e.g., proposing "emergency financial aid" to meet industry needs), and the General Assembly might want a slightly more narrow/clear range of funding targets.

- *Require* close involvement with the Workforce Development Council. One option would be to have the Workforce Development Council oversee the program. Regardless, grants should not be approved without specific support from the Workforce Development Council. Staff has requested that the Department submit a more detailed proposal for the grant selection and approval process (i.e., who will be involved) so that, if this initiative is approved, the process can be clearly articulated in statute.

- Specify that grant funds shall be available for at least two years. Staff does not believe that an effective grant program can be launched, grants awarded, and dollars spent within a year. The Committee might consider a cash fund to hold the dollars.

- Require industry participation, and favor those projects receiving matching funds, equipment, and other resources from a group of industry partners.

- Allow for 2.0-3.0 percent of approved funding ($100,000 to $150,000) to be used for administration. The Department asserts that this program can be administered within existing resources. There has been so much turnover in the Department that it is likely that the Department has sufficient excess financial resources to administer the program at present and would not need to use these administrative funds. *However,* staff believes that for a program of this type to be successful, the State would need dedicated staff with expertise in CTE and the ability to assess proposals. *Administration of CTE is currently located in the State Board for Community Colleges and Occupational Education, which administers various formula allocation programs to all relevant entities. The Department has a 0.5 FTE position (currently vacant), shared between the Workforce Development Council and the Department, to compile the Talent Pipeline report, but staff is doubtful that the person in this position, if filled, could effectively also oversee a competitive grant program with dozens of applications and associated post-grant monitoring.*

- Specify that grants may be used for equipment, start-up costs, and some capital expenses. Allow at least $500,000 to support capital construction activities per grant, so long as there is evidence that there will be future revenue to cover these costs in later years. Capital costs are often the largest obstacles to moving these projects forward. Community colleges have access to capital construction funds through the capital development process, and this grant should not duplicate that process. Area technical colleges (and local district colleges) do not have access to this support. ATCs, in particular, often complain about a lack of related resources. If the program wishes to allow for larger capital grants to ATCs for capital construction, some additional review by the CDC might be appropriate; but this is not necessary for capital spending under $500,000.

- As the Department has recently proposed to staff, ensure that the request and reporting process builds on the existing structure created for the federal Perkins grant. This federal grant, allocated via formula, supports equipment and other front-end costs for CTE programs. However, funding is disbursed to both secondary and postsecondary programs by the community college system using a formula distribution. With this new grant program, the State hopes to be able to direct larger amounts of funds than are currently available through the formula and thus to spur more significant program development. However, much of the data collection and analysis already required for the Perkins program may be used for this one.

In response to staff questions, the Community College System provided examples of some of the kinds of activities that could be at least partially funded through this initiative. As is clear from these examples, other major sources of support would also be necessary for large program expansions.

Mobile Welding Lab: 40 ft. portable welding lab requires $818,000 in equipment and first year personnel and operating of $121,250.

Media Program requested by high schools and communities in the area: Program equipment: $20,000; Start-up costs, including first year personnel and operating $128,200.

Health Care Program Expansion: Facility usage is at a maximum for current health programs. In order to expand current or add new programs, the college would need leased space to support growing simulation usage while adding three new programs: surgical technology, respiratory therapy, and physical therapy assistant. Program equipment cost: $665,000; Startup costs such as accreditation and professional development: $288,000; First year leased space cost and build out: $6.7 million.

Area Technical Colleges have indicated to staff that their most significant obstacle to program expansion is space and capital construction costs. Staff is uncertain whether the grant program parameters suggested above by staff would be sufficient to meet their needs. Staff presumes that if the Department is serious about this initiative it will sit down with the Area Technical Colleges to hammer out such issues.

CTE Performance Incentive/Operating Funding: CTE providers such as the community college system argue that if credential attainment is a priority for the General Assembly, it should "put its money where its mouth is" and add weight for CTE in the existing higher education funding model.

Staff has some sympathy for this position, but notes that:

- Making this change within the current higher education funding model drives $5.4 million to the community colleges at the expense of other institutions, which could limit institutions' ability to keep to the 3.0 percent tuition cap to which they previously agreed.
- About 25 percent of CTE credentials are driven by the area technical colleges, which receive no related funding benefit from increasing weight on CTE in the higher education model.
- The Department has expressed concern about creating an incentive to issue "junk" certificates. Unlike degrees where requirements are clear, lengths and types of certificates vary enormously.

Given these issues, staff believes there would be value to creating a three-year pilot program, outside of the existing funding model, to add funding for high quality CTE credentials produced. This would enable the state to support the full range of public postsecondary institutions that deliver CTE and provide a sound "test" environment to ensure that the State has good mechanisms for identifying high quality certificates at all of the institutions, including the ATCs.

If the Committee is interested, staff suggests that any bill on the pilot specify the legislature's intent to increase funding for the pilot based on increases in certificates produced, to the extent state revenue allows.

The table below shows the initial breakdown of $5.0 million in funding, based on certificates awarded in FY 2016-17 that have not yet been scrubbed to limit to "high quality".

	FY 2016-17 Certificates less than one year	FY 2016-17 Certificates at least one but less than two years	Total Certificates	% of total	Funding
State community college system	$10,975	$1,675	$12,650	63%	$3,172,812
Colorado Mesa University	242	185	427	2%	107,098
Metro State U of Denver	74	0	74	0%	18,560
Local district colleges	1,717	131	1,848	9%	463,506
Area technical colleges	4,754	182	4,936	25%	1,238,024
Total	**17,762**	**2,173**	**19,935**	**100%**	**$5,000,000**

The amounts shown above would represent increases 11.2 percent for the area technical colleges, 1.9 percent for the community college system, of 2.7 percent for the local district colleges, and 0.4 percent for CMU above the already substantial increases in the executive request.

If desired, the bill could include an offsetting reduction for funding increases included in the higher education funding model for the local district colleges, which have far more resources available than the other entities that must rely solely on state funding and tuition.

MEMORANDUM

JOINT BUDGET COMMITTEE

TO	Joint Budget Committee
FROM	Vance Roper, JBC Staff (303-866-3147)
DATE	March 20, 2018
SUBJECT	Rural Broadband

The rural broadband line item was added to the Long Bill during FY 2017-18 and was funding through the High Cost Support Mechanism (HCSM). Staff has recently learned that additional funds are available in the HCSM for rural broadband in FY 2018-19.

Staff recommends the Joint Budget Committee appropriated $6.5 million from the High Cost Support Mechanism for rural broadband in the Rural Broadband line item in the FY 2018-19 Long Bill.